

Government and Public Sector

January 2009

Peterborough City Council

CPA Use of Resources – Assessment Results

Gillian Beasley
Chief Executive
Peterborough City Council
Town Hall
Peterborough
PE1 1HQ

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Dear Gillian

CPA – Use of Resources – Assessment Results

We are pleased to present the summary results of our assessment of the Council's use of resources, which has been completed in accordance with the methodology and guidance issued by the Audit Commission. Please contact Chris Hughes on 0207 804 3392 or me on 01603 883321 if there any issues you would like to discuss with respect to this report.

Yours sincerely

PricewaterhouseCoopers LLP

cc Nigel Smith, Audit Commission Relationship Manager

PricewaterhouseCoopers LLP

Abacus House
Castle Park
Cambridge CB3 0AN
Telephone: +44 (0) 1223 460055
Facsimile: +44 (0) 1223 552336
Direct Phone: 01223 552285
www.pwc.com/uk

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

Introduction

We have completed our assessment of the Council's use of resources in accordance with the methodology and guidance prescribed by the Audit Commission. The results have been subject to internal and Audit Commission quality assurance arrangements designed to ensure compliance with the methodology and guidance and to promote consistency of assessment between appointed auditors.

The tables in Section 2 set out the results of the assessment and highlight the areas for improvement based on the criteria devised by the Audit Commission. Each judgement area consists of a number of key lines of enquiry and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry (KLoE) showing performance levels 2, 3 and 4. These translate into the following assessments

- 1 = below minimum requirements – inadequate performance
- 2 = only at minimum requirements – adequate performance
- 3 = consistently above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly

The Audit Commission determines the overall use of resources score by combining the auditor's separate scores for each of the themes covered, using a set of rules which it published in the October 2005 report 'CPA – the harder test'. This was updated, after consultation, in February 2006. For 2007/08 the criteria have again been made harder with several new requirements being added or made compulsory.

Preliminary results were discussed with senior management. The results were subsequently subject to internal PwC review processes and a national process of quality assurance coordinated by the Audit Commission. The Audit Commission advised authorities of the overall use of resources score on 8 December 2008.

The Council's overall score was a 3 – performing well, the same score it achieved last year. However, the Council improved on five out of eleven individual theme scores compared to last year. The other six scores remained the same.

In the "Observations and areas for improvement" section of this report we have taken into account some of the KLoEs in the new Comprehensive Area Assessment (CAA) that will replace the current Use of Resources assessment in 2009.

Assessment results

Financial Reporting

4

How good are the council's financial accounting and reporting arrangements?

Overview

The working papers provided by the Strategic Finance team were exemplary again this year, ready on the first day of the audit and prepared on a CD with clear links to the statement of accounts. We have reported the Council's working papers to the Audit Commission as an example of notable practice.

The Council engaged with us throughout the year to discuss accounting issues as they arose. This dialogue ensured that the audit of the statement of accounts was efficient as the accounting treatment for significant transactions and balances was agreed in principle before the audit team began the audit.

The new financial instruments requirements introduced in the Statement of Recommended Practice (SORP) were technically challenging. The Council met these challenges and submitted a robust draft set of accounts to Members for approval in June 2008.

Regarding external accountability, the Council continues to produce useful summary financial information, and can demonstrate that it has consulted with a wide range of stakeholders to inform its decision to prepare an annual report. However, as the Council is currently in the process of calculating its Carbon Footprint using the new DEFRA toolkit, it has not included sufficient analysis about its environmental footprint in its published financial information.

Key Lines of Enquiry

- The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers

2008 **2007**

4 **4**

<ul style="list-style-type: none"> ▪ The Council promotes external accountability. 	3	3
<p>Observations and areas for improvement</p> <ul style="list-style-type: none"> ▪ The Council may wish to consider reviewing the external reports of Local Authorities who have won awards for their external reporting, or been nominated as notable practice to the Audit Commission. The CAA requires that published reports need to provide an objective, balanced and understandable assessment of the organisation's performance in the year. 		

How well does the council plan and manage its finances?

Overview

The Council's overall score against this theme has remained a "3". The key reason for this is the fact that the Council was not able to demonstrate notable practice in balance sheet monitoring or asset management. Furthermore, to achieve a "4" the Council needs to demonstrate how its financial plans and strategies have contributed to the achievement of its corporate objectives.

There was a significant overspend in Children's Services in 2007/08. However, this overspend was not unexpected. It was flagged as a risk in the Medium Term Financial Strategy, and budgetary control information recognised the overspend so that Members were aware of it sufficiently early in the year. We expect that the Zero Based Budgeting exercise undertaken in Children's Services should result in future budget variances of a smaller magnitude.

Notwithstanding the issues in Children's Services, the Council has continued to improve its financial management arrangements in 2008, building upon the improvements made last year. For example, the Integrated Business and Financial Planning process (IBFP) involved closer integration of the Performance and Programme Team, who traditionally support the service planning process, and the Strategic Finance Team, who support the financial planning process.

The Council has improved its asset management sufficiently for its score to be increased to a "3" against this KLoE. Members have approved a plan to address backlog maintenance, and the Council is able to demonstrate that it makes investment and disposal decisions utilising whole life costing.

Key Lines of Enquiry

- The council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities
- The council manages performance against budgets
- The council manages its asset base

2008	2007
3	3
3	3
3	2

Observations and areas for improvement

- The Council needs to ensure that it manages the impact of the credit crunch to ensure that its Medium Term Financial Strategy remains achievable;
- The Business Transformation Programme has achieved significant cash savings and process efficiencies. It is important that the Council continues its success in this area;

- Local communities and other stakeholders need to continue to be engaged in the financial planning process; and
- The Council should consider how improvements in its asset management arrangements can be translated into outcomes, so that its strategic priorities and service needs are met.

Financial Standing

3

How well does the council safeguard its financial standing?

Overview

The Council's financial standing is sound. It has managed its budget in the last three years within the available resources.

The Medium Term Financial Strategy explains the risks that were identified in the budget setting round, during which Directors undertook a risk assessment of their budgets.

Last year we noted that the Council needed to ensure that it continued to embed improvements in the area of debt management to prevent its Financial Standing score from falling back. We are pleased to report that improvements continue to be made in debt management and that further initiatives are ongoing in 2008/09.

We note that the Council had invested £3m in Icelandic banks. We note that this investment was in line with the Council's treasury management policy at that time. The treasury management policy is regularly updated and has been reviewed and considered by the Council in the light of a globally deteriorating credit market.

Key Lines of Enquiry

- The council manages its spending within the available resources

2008

2007

3

3

Observations and areas for improvement

- The Council needs to demonstrate a good track record of achieving challenging financial health indicators, particularly those relevant to debt management.

Internal Control

3

How well does the council's internal control environment enable it to manage its significant business risks?

Overview

The Council has made improvements across all of the KLoEs in this area and has achieved a level "3" in 2008. The key reasons for the improved score are as follows:

- The programme to give Officers relevant training and guidance to enable them to take responsibility for managing risk within their own working environment was sufficiently embedded during the 2007/08 financial year;
- The assurance framework document that maps the Council's strategic objectives to risks, controls and assurances was in place as at 31 March 2008;
- The counter fraud work undertaken by the Investigation Team is proactive, driven by a risk assessment and the Council can demonstrate that the team is adequately resourced. The Council is successful at pursuing both external and internal frauds; and
- Corrective action is being taken to address weaknesses identified by the Audit Commission's National Fraud Initiative data matching exercise.

Key Lines of Enquiry

	2008	2007
▪ The council manages its significant business risks.	3	2
▪ The council has arrangements in place to maintain a sound system of internal control	3	2
▪ The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business	3	2

Observations and areas for improvement

- The Council should continue to focus on ensuring that risk management is embedded in business processes. We note that improvements have continued to be made since 31 March 2008 (the cut-off date for this assessment), for example, the Corporate Management Team's performance management sessions;
- Embed the partnership toolkit, which we understand will enable the Council to obtain assurance on a risk basis of the viability of its significant contractors' / partners business continuity plans;
- The Council will need to demonstrate how the Assurance Framework has been used in the process for updating Corporate Risk Registers; and
- The impact of the Audit Committee in providing effective challenge across the Council and independent assurance on the risk management framework and

associated internal control environment needs to be demonstrated.

Overview

Although the Council's expenditure per head remains in the upper quartile of comparative authorities, the Council set a 1.4% rise in 2007/08 Council Tax levels indicating a Council Tax trend that remains below average for comparator authorities.

However, it remains unclear how the investment being made by the Council in respect of business transformation and service developments is currently translating into performance outcomes despite some areas of key work i.e. Solutions Centre and revised analysis of performance information with partners on areas such as teenage pregnancies. The Council will need to demonstrate further relative improvements in performance i.e. in educational achievement and relative improvements in ranking with comparator authorities, allied to that of demonstrable efficiencies, as well as building on performance achieved within other priority areas i.e. Children in care.

Following last year's comments in respect of the Business Transformation programme, the Council's implementation and promotion of a robust savings and efficiency programme has been able to clearly demonstrate efficiency savings of £2,821,953 (£2,645,294 cashable), which was very close to the initial budget of some £3m. Total savings achieved for the period to 2007/08 have been £10,415,300 (Target: £9,245,000). Key actions undertaken during the year to achieve the efficiencies included:

Review of homecare packages and improved management of services: £646,000

Renegotiation of Council contracts for supplies and services: £917,000

Review of business support posts, new accommodation strategy implemented, and improved customer support: £1,007,000

Key Lines of Enquiry

- The council currently achieves good value for money
- The council manages and improves value for money

	2008	2007
	2	2
	3	2

Observations and areas for improvement

The Council should continue to implement the issues raised and recommendations made last year in order to demonstrate continuous improvement. In addition, the Council needs to be aware of, and prepare for the revised requirements of the 2008/09 Use of Resources assessment that move away from the achievement of criteria to 'characteristics of performance'.

The revised Use of Resources assessment will be broader in scope and embrace wider resource issues such as people, workforce planning and the use of natural resources. In addition it will consider and assess the Council's approach to mainstreaming the themes of:

- Partnership working.
- Data quality.
- Equalities; and
- Sustainable development.

The forthcoming assessment will place more emphasis on considering outcomes for local people and it is particularly important that the Council recognise that the revised KLoE are more strategic and focus much more explicitly than previously on value for money achievements, rather than on processes.

In particular the Council will be required to demonstrate:

- Whether arrangements are working effectively in practice.
- What difference they are making.
- Whether they are achieving expected outcomes; and
- Value for money.

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